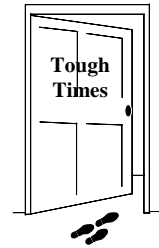


Getting Through Tough Times



Talking with Creditors

GTTT-5

When your income drops and you realize you can't pay all of your bills, it's important to face your debts and know how to communicate with your creditors.

Your past experiences with creditors are important. If you have consistently paid bills on time, your creditors will be more cooperative than if you were late or didn't make regular payments. Creditors are in the business of lending money and/or providing services. They want to keep your business, but they also want to get paid.

Contact your creditors immediately; don't wait for them to contact you. Even if your payment history is less than perfect, you will still make better arrangements by being forthright. Explain your current situation. Tell them your family income is reduced and you are not able to keep up with your payments. Frankly discuss your future income prospects so you and your creditors can figure out solutions to the problem. Most creditors would prefer to receive smaller payments on a regular basis than to begin expensive collection procedures.

Where to Begin

Before you and your creditors agree on a reduced payment, determine how much money you have with which to pay off your debts. Figure out how much income you can count on each month and how much you need to pay for your essential monthly living expenses. You'll need to know who you owe, how much you owe, as well as how you plan to pay them. *Deciding Which Bills to Pay First*, another fact sheet in this series, can help you review your family situation and figure out a plan to divide your income to pay your family monthly living expenses and set priorities for paying bills. This publication is available on the Rural Minnesota Life web site:

www.ruralmn.umn.edu

Contacting Your Creditors

Once you have gathered the information you need, contact each creditor, explain your family's situation and ask their assistance in working out a solution.

Be prepared to explain the following:

- The reason you cannot pay
- Your current income and prospects for future income
- Other obligations
- Your plans to bring this debt up-to-date and keep it current, including the amount you will be able to pay each month

Visit local creditors in person. Visit the loan officer at your bank or credit union, the credit manager of local stores, and the budget counselor at the utility company. Don't forget creditors like your dentist, physician, clinic and hospital.

Contact out-of-town creditors by phone or letter. If you phone, write down the name and title of the person to whom you talked. Follow the conversation with a letter summarizing the agreement between you and the creditor. Keep copies of your correspondence as well as any reply.

Use the sample letter that follows as a guide when writing to creditors. You may also use it as an outline of what to say when talking to a creditor.

As you negotiate with each of your creditors, don't agree to any plan simply to get off the hook. Be sure you will be able to follow through on the agreement. Establish a payment rate that is acceptable to both you and the creditor.

Sample Letter to Creditors

Use this example as a guide when writing or talking to creditors. Fill in the blanks with your family's specific situation.

Your complete address

Date

Company name

Company address

Attention: Delinquent Account Representative

Subject: Your name and account number

The purpose of this letter is to inform you that I am currently having some budgeting and debt problems. I am not able to make my minimum monthly payment as a result of

(a family crisis, a recent job loss or seasonal unemployment, etc.)

I have taken a careful look at our financial situation. I have set up a realistic minimum budget for my living expenses and have developed a debt repayment plan. I am hoping you will accept a reduced payment of _____.

(amount you will pay)

soon as possible until the debt of \$ _____ is totally repaid.

(amount owed)

You may expect the first payment on _____.

(date)

I hope you find this plan acceptable. I look forward to your letter of acknowledgment.
Thank you.

Sincerely,

(signed)

Here is a list of some alternatives to consider when negotiating with your creditors:

- Reduce the monthly payment.
- Refinance the loan.
- Defer a payment for a short time if you expect your income will increase soon.
- Reduce or drop late charges.
- Pay only interest on the loan until you can resume making monthly payments.
- Voluntarily surrender or give back an item purchased on credit.
- Sell the item and use the cash to satisfy, or partially satisfy, the debt (you are still responsible for any remaining balance).

Not all creditors will be willing to accept alternatives. However, they'll be more likely to work with your family if you contact them before they contact you. They all want to be repaid and would rather get some money on a regular basis than have to begin expensive collection procedures.

Tell your creditors about any changes that may affect your payment agreement. If you fail to follow the plan that you and your creditor agreed upon, they will be less willing to work with you. You will also hurt your chances of getting future credit.

If you owe a large amount of money, and if your creditors won't accept reduced payments, you may have to consider more extreme alternatives such as arranging for debt payment through a credit counseling service or filing bankruptcy.

If You Don't Pay Your Bills

If you miss a payment, you will be faced with increasing pressure to pay. First you will receive a letter reminding you that you missed a payment and asking you to pay promptly. After that, you may receive a more direct letter demanding payment, or you may get a phone call.

If the bills are still not paid, they will probably be turned over to an independent collection agency. The Fair Debt Collections Practices Act prohibits debt collectors from using abusive or threatening language. They can't call you at unusual hours or

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threaten criminal prosecution. And they can't discuss your financial situation with others.

Here's what to do if you receive a call from a creditor or a collection agency:

- Ask the name of the caller. Get the name of the creditor and the name, address and telephone number of the collection agency. Get the exact amount of the account that is claimed to be due. Write down the date and time of each call.
- Remain calm. Explain your current financial situation and how much of the bill you are able to pay, according to your repayment plan.
- Dispute debts in writing. If you believe you do not owe the amount claimed or disagree in other ways, make your reasons known promptly in writing to both the creditor and the collection agency. Request a written statement of your account. Always keep copies of your correspondence for future reference.

Creditors' Options

Creditors can take several kinds of legal action against you. These actions are often written into the sales contract you signed. If you fail to make payments, the creditor or collection agency may decide to initiate a lawsuit by filing a complaint. As the defendant, you will receive a summons or notification that a complaint has been filed against you. The case may be settled in small claims court or civil court, depending on the amount of money involved. If you don't respond or lose the case, the court will issue a judgment against you for the amount you owe plus fees for court costs and attorney fees.

What a creditor can do if you fail to pay your bills:

- *Acceleration* — the entire debt is payable at once if you miss a payment. The courts can force you to pay by seizing your property and selling it.
- *Repossession* — the creditor can seize the item you bought or the property you used as collateral – security – for the loan. If the sale of the property brings less than the amount you owe, you must pay the difference.

- *Wage garnishment* — a court order requires your employer to withhold part of your wages and pay your creditor.
- *Foreclosure* — if you fail to make your mortgage payment or fail to pay the taxes or insurance on your house or other property, the lender can force the sale of your home/business to pay off the loan. You are responsible for the legal fees of foreclosure and the difference between the selling price of the property and the amount owed on the loan.

All of these actions are very serious and could jeopardize your ability to get credit in the future. You can reduce your chances of being harassed by creditors or collection agencies by working out solutions for debt repayment early.

Helpful Internet Resources

Council of Better Business Bureau

Provides objective information regarding businesses, advice regarding consumer decisions, and a source for filing complaints against businesses
(<http://cbbb.org/>)

National Foundation for Credit Counseling

Promotes financially responsible behavior by offering debt advice and counseling
(<http://www.nfcc.org>)

Resource Management for Daily Life

Highlights University of Minnesota Extension programs which provide trustworthy financial education for informed financial decisions.
(<http://www.extension.umn.edu/MoneyEveryDay/>)

Rural Minnesota Life

Provides information for Minnesotan rural families, including the other 16 Getting Through Tough Times fact sheets.
(www.ruralmn.umn.edu)

Getting Through Tough Times: Talking with Creditors (GTTT-5)

Getting Through Tough Times is a 17-part series for individuals and families experiencing personal and/or financial crisis. Visit www.extension.umn.edu/moneyeveryday for more information on this and other personal resource management materials and trainings.

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